St. Paul Telephone
Cooperative Association

Received & Inspected

JUN 1 4 2012

FCC Mail Room

Date: June 7, 2012

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street SW
Washington, D.C. 20554

Re: WC Docket No. 10-90, Annual 54.313(a)(2) through (6); (f)(2) and (h) Report of High-Cost Recipient

Dear Ms. Dortch:

Enclosed herein is the annual report for St Paul Cooperative Telephone Association, Study Area Code 532396 pursuant to §54.313 of the Commission's rules.

Also enclosed is one copy of this cover letter to be stamped and returned in the enclosed SASE.

Please contact me with any questions at:

Phone 503-633-2111
Email nick@stpaultel.com

Sincerely,

Nick Schneider
General Manager

Enclosures
Copies to:
Karen Majcher
Vice President-High Cost and Low Income Division
Universal Service Administrative Company
2000 L Street NW, Suite 200
Washington, DC 20036

No. of Copies rec'd 0
List ABCDE

St Paul Cooperative Telephone Association
2012 Annual 54.313 Report of High-Cost Recipient

Certifications

In compliance with the following regulations, St Paul Cooperative Telephone Association, by Nick Schneider, General Manager hereby certifies, subject to the penalties for false statements imposed under 18 U.S.C. § 1001, that:

54.313(a)
47 CFR § 54.202(a)(1)(i) – It will make reasonable efforts to comply with the service requirements applicable to the support it receives, specifically:
High Cost Loop Support – the services listed and defined in 47 CFR § 54.101(a).
Lifeline Support – the three criteria set forth in 47 CFR § 54.401(a).
Interstate Common Line Support – the filings required in 47 CFR § 54.903 and the certification required in 47 CFR § 54.

47 CFR § 54.313(a)(5) – It will make reasonable efforts to comply with applicable service quality standards as stated in Oregon Administrative Rules 860-034-0390, Retail Telecommunications Service Standards for Small Telecommunications Utilities (or your State's equivalent) and consumer protection rules as defined in 47 CFR Part 64 Subpart U, Customer Proprietary Network Information and the Federal Trade Commission Red Flag rules to prevent identity theft. (See Page 3)

47 CFR § 54.313(a)(6) – It will make reasonable efforts to function in emergency situations as set forth in 47 CFR §54.202(a)(2). (See Page4)

Certified by: ______________________
Signature

Nick Schneider
Printed Name

General Manager
Title

St Paul Cooperative Telephone Association
2012 Annual 54.313 Report of High-Cost Recipient

54.313(a)(2) Detailed Information on any Outage in 2011

An outage is a significant degradation in the ability of an end user to establish and maintain a channel of communications as a result of failure or degradation in the performance of a communications provider's network of at least 30 minutes in St Paul Cooperative Telephone Association service area.

An outage affected at least ten percent of the end users in the service area. No (Yes or No)

An outage that potentially affects a 911 special facility occurs whenever:
(1) There is a loss of communications to PSAP(s) potentially affecting at least 900,000 user-minutes and: The failure is neither at the PSAP(s) nor on the premises of the PSAP(s); no reroute for all end users was available; and the outage lasts 30 minutes or more; or
(2) There is a loss of 911 call processing capabilities in one or more E–911 tandems/selective routers for at least 30 minutes duration; or
(3) One or more end-office or MSC switches or host/remote clusters is isolated from 911 service for at least 30 minutes and potentially affects at least 900,000 user-minutes; or
(4) There is a loss of ANI/ALI (associated name and location information) and/or a failure of location determination equipment, including Phase II equipment, for at least 30 minutes and potentially affecting at least 900,000 user-minutes (provided that the ANI/ALI or location determination equipment was then currently deployed and in use, and the failure is neither at the PSAP(s) or on the premises of the PSAP(s)).

An outage affected a 911 special facility in the service area. No (Yes or No)

Information on each outage included in the above:
(A) The date and time of onset of the outage - ______
(B) A brief description of the outage and its resolution - ______
______
______
(C) The particular services affected – ______
______
______
______
(D) The geographic areas affected by the outage - ______
(E) Steps taken to prevent a similar situation in the future – ______
______
(F) The number of customers affected - ______

St Paul Cooperative Telephone Association
2012 Annual 54.313 Report of High-Cost Recipient

Miscellaneous Information

54.313(a)(3) The number of requests for service from potential customers within the recipient's service areas that were unfulfilled during the prior calendar year - ____0____
St Paul Cooperative Telephone Association attempted to provide service to those potential customers by

____

____

54.313(a)(4) The number of complaints per 1,000 connections in 2011 - ___15___

54.313(a)(5) Satisfaction of Consumer Protection and Service Quality Standards

Consumer Protection
St Paul Cooperative Telephone Association complies with the requirements of 47 CFR Part 64 Subpart U, Customer Proprietary Network Information and the Federal Trade Commission Red Flag rules to prevent identity theft. A manual for each of those programs is in place and is part of the employees' handbook. Employee training is conducted annually and new hires are instructed on the programs as required by their job functions.

Service Quality Standards
St Paul Cooperative Telephone Association complies with the service standards of the State of Oregon as promulgated in the Oregon Administrative Rules 860-034-0390, Retail Telecommunications Service Standards for Small Telecommunications Utilities.

St Paul Cooperative Telephone Association
2012 Annual 54.313 Report of High-Cost Recipient

54.313(a)(6) Ability to Remain Functional in Emergency Situations

<u>Back-up Power</u>
St Paul Cooperative Telephone Association has the following back-up power capabilities:

Switches – stand alone and/or host
Switch A 30kw Generator, propane fuel, 250 gallon fuel tank also 15 hour of battery back-up.

Remote Central Offices
No Remote Offices

Subscriber carrier (DLC, AFC, OPM, etc.)
Calix 1 10 Hours of battery back-up also have portable generator.
Calix 2 Same as above
Calix 3 Same as above
Calix 4 Same as above

Network Interface Devices (NIDs)
St Paul Cooperative Telephone Association has 342 customers with metallic (copper) connections to the Central Office and their NIDs are powered from the Central Office.
St Paul Cooperative Telephone Association has 15 customers with non-metallic (fiber optic) connections to the Central Office. These customers' NIDs are battery powered in case of emergency. The batteries are rated to last 8 hours.

<u>Ability to reroute traffic around damaged facilities:</u>
St Paul Cooperative Telephone Association is investigating the installation of redundant facilities for interexchange carrier traffic.

<u>Capability to manage traffic spikes resulting from emergency situations</u>
St Paul Cooperative Telephone Association has 357 customers, switching capacity of 1000 simultaneous calls, and transport capacity for 96 simultaneous calls. St Paul Cooperative Telephone Association takes no responsibility for the capabilities of interconnected networks to manage traffic spikes resulting from emergency situations, but will continue its best efforts for its networks during such events.

St Paul Cooperative Telephone Association
2012 Annual 54.313 Report of High-Cost Recipient

54.313(f)(2) Audited Financial Report

See Attachment A

St Paul Cooperative Telephone Association
2012 Annual 54.313 Report of High-Cost Recipient

54.313(h) Additional Residential Voice Rate Data
As of June 1, 2012

Voice rate data	Rate
Residential Local Service Rate -	$10.50
State Subscriber Line Charges	$ 0.00
State Universal Service Fee	$ .90
Mandatory EAS Charges (1)	$ 3.75
Total	$15.15

Rates and lines below the local urban rate floor of $10.00

NONE

Attachment A

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
St. Paul Cooperative Telephone Association
St. Paul, Oregon

We have audited the accompanying balance sheets of St. Paul Cooperative Telephone Association (the Association) as of December 31, 2011 and 2010, and the related statements of operations, changes in members' equity, comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Paul Cooperative Telephone Association as of December 31, 2011 and 2010, the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

AKT LLP

Salem, Oregon
February 9, 2012

ST. PAUL COOPERATIVE TELEPHONE ASSOCIATION

Balance Sheets

December 31, 2011 and 2010

	2011	2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 352,571	$ 255,588
Marketable securities	629,096	600,738
Accounts receivable, net of allowance for doubtful accounts of zero	97,850	92,548
Prepaid expenses	19,604	19,589
Total Current Assets	1,099,121	968,463
Other Investments	21,647	18,222
Property, Plant, and Equipment:		
In service	2,731,863	2,669,606
Construction in process	3,289	11,075
	2,735,152	2,680,681
Less accumulated depreciation	1,371,819	1,241,307
Property, Plant, and Equipment, net	1,363,333	1,439,374
	$ 2,484,101	$ 2,426,059
LIABILITIES AND MEMBERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 16,572	$ 35,517
Accrued expenses	3,630	3,166
Customer deposits	2,400	2,500
Total Current Liabilities	22,602	41,183
Unclaimed Patronage Capital Distributions Payable	32,183	37,732
Members' Equity:		
Memberships - fully paid	117,500	119,878
Memberships - partly paid	9,597	9,282
Other equity	493,514	460,354
Accumulated other comprehensive income	19,179	7,856
Patronage capital	1,789,526	1,749,774
Total Members' Equity	2,429,316	2,347,144
	$ 2,484,101	$ 2,426,059

See accompanying notes to financial statements.

ST. PAUL COOPERATIVE TELEPHONE ASSOCIATION

Statements of Operations

Years Ended December 31, 2011 and 2010

	2011	2010
Operating Revenues:		
Local network	$ 109,850	$ 114,310
Network access	599,035	583,707
Long distance	49,608	54,097
Miscellaneous	34,278	41,401
Total Operating Revenues	792,771	793,515
Operating Expenses:		
Plant specific operations	130,673	131,883
Plant nonspecific operations	45,832	10,872
Depreciation	130,513	128,610
Long distance	37,225	42,929
Customer operations	112,459	106,107
Corporate operations	203,331	226,458
Operating taxes	19,768	20,878
Total Operating Expenses	679,801	667,737
Operating Margin	112,970	125,778
Other Income (Expense):		
Video revenue	52,070	77,074
Video expense	(47,375)	(73,400)
Investment and other income	36,729	33,657
Net nonregulated activities	(7,686)	(15,838)
Total Other Income	33,738	21,493
Net Margin	$ 146,708	$ 147,271

See accompanying notes to financial statements.

ST. PAUL COOPERATIVE TELEPHONE ASSOCIATION

Statements of Changes in Members' Equity

Years Ended December 31, 2011 and 2010

	Fully Paid Memberships	Partly Paid Memberships	Other Equity	Patronage Capital	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance, December 31, 2009	$ 124,500	$ 7,846	$ 415,337	$ 1,801,400	$ (12,435)	$ 2,336,648
Net margin - 2010	-	-	147,271	-	-	147,271
Allocation of net margin - 2009	-	-	(102,254)	102,254	-	-
Federal communications excise tax refunds	-	-	-	1,273	-	1,273
Net change in other comprehensive income	-	-	-	-	20,291	20,291
Reclaimed capital credits	-	-	-	5,551	-	5,551
Retirement of patronage capital	-	-	-	(160,704)	-	(160,704)
Change in memberships	(4,622)	1,436	-	-	-	(3,186)
Balance, December 31, 2010	119,878	9,282	460,354	1,749,774	7,856	2,347,144
Net margin - 2011	-	-	146,708	-	-	146,708
Allocation of net margin - 2010	-	-	(113,613)	113,613	-	-
Federal communications excise tax refunds	-	-	-	1,345	-	1,345
Net change in other comprehensive income	-	-	-	-	11,323	11,323
Reclaimed capital credits	-	-	-	7,700	-	7,700
Retirement of patronage capital	-	-	65	(82,906)	-	(82,841)
Change in memberships	(2,378)	315	-	-	-	(2,063)
Balance, December 31, 2011	$ 117,500	$ 9,597	$ 493,514	$ 1,789,526	$ 19,179	$ 2,429,316

See accompanying notes to financial statements.

Attachment A

ST. PAUL COOPERATIVE TELEPHONE ASSOCIATION

Statements of Comprehensive Income

Years Ended December 31, 2011 and 2010

	2011	2010
Net Margin	$ 146,708	$ 147,271
Other Comprehensive Income - Unrealized Gains on Marketable Securities	11,323	20,291
Total Comprehensive Income	$ 158,031	$ 167,562

See accompanying notes to financial statements.

ST. PAUL COOPERATIVE TELEPHONE ASSOCIATION

Statements of Cash Flows

Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities:		
Net margin	$ 146,708	$ 147,271
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation	130,513	128,610
Total patronage income	(4,893)	(7,102)
Changes in assets and liabilities:		
Accounts receivable	(5,302)	191
Prepaid expenses	(15)	1,148
Accounts payable	(18,945)	(19,028)
Accrued expenses	464	(682)
Customer deposits	(100)	300
Net Cash Provided by Operating Activities	248,430	250,708
Cash Flows from Investing Activities:		
Purchases of plant and equipment	(54,472)	(65,529)
Proceeds from sales and maturities of marketable securities	31,715	33,018
Purchases of marketable securities	(48,750)	(173,809)
Cash patronage received	1,468	4,246
Net Cash Used by Investing Activities	(70,039)	(202,074)
Cash Flows from Financing Activities:		
Federal communications excise tax refunds	1,345	1,273
Decrease in memberships	(2,063)	(3,186)
Retirement of patronage capital	(80,690)	(154,602)
Net Cash Used by Financing Activities	(81,408)	(156,515)
Net Increase (Decrease) in Cash and Cash Equivalents	96,983	(107,881)
Cash and Cash Equivalents, beginning	255,588	363,469
Cash and Cash Equivalents, ending	$ 352,571	$ 255,588

See accompanying notes to financial statements.

ST. PAUL COOPERATIVE TELEPHONE ASSOCIATION

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

Note 1 - Organization and Significant Accounting Policies

Organization

St. Paul Cooperative Telephone Association (the Association) is an Oregon cooperative corporation providing telecommunications services to its members on a cooperative basis. The service area is in the general vicinity of St. Paul, Oregon.

The Association provides satellite TV in the general vicinity of St. Paul, Oregon as a satellite dish reseller.

Regulation

The Association is subject to limited regulation by the Oregon Public Utility Commission (PUC). The Association maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the Federal Communications Commission (FCC).

Pending and future regulatory and legislative actions, including the FCC's National Broadband Plan and Report and Order and Further Notice of Proposed Rule Making, may have a significant impact on the Association's future operations and financial condition.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates involve judgments with respect to numerous factors that are beyond management's control. Actual results could differ from those estimates.

Comprehensive Income

The Association reports comprehensive income in order to report all changes in equity of the Association that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owner.

Cash and Cash Equivalents

The Association considers all highly liquid investment securities purchased with an original maturity of 3 months or less to be cash equivalents. The Association maintains its cash either in bank deposits that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000 per depositor or in certain non-interest bearing accounts that are fully insured by the FDIC. At December 31, 2011 and 2010 the Association has no uninsured cash.

The Association has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash.

Marketable Securities

Generally accepted accounting principles require classifying investments in marketable securities into one or more of three categories: held to maturity, available for sale, or trading, based upon the Association's ability and intent to hold the investment to maturity. The marketable securities of the Association have been categorized as available for sale.

Accounts Receivable

The Association extends credit to its members and others. Receivables from subscribers are due 30 days after the issuance of the invoice. Receivables from other exchange carriers are typically outstanding from 30 to 60 days before payment is received. Delinquent accounts are written off to uncollectible expense when it is determined that the account will not be collected. Receivables past due more than 90 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and the specific circumstances of the customer. Past due status is determined based on how recently the payment has been received.

Note 1 - Organization and Significant Accounting Policies, continued

Fair Value of Financial Instruments

The Association's financial instruments, none of which are held for trading purposes, include cash, receivables, and accounts payable. The Association estimates that the fair value of all of these non-derivative financial instruments at December 31, 2011 and 2010 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheets.

Property, Plant, and Equipment

Property, plant, and equipment in service, and non-regulated property are recorded at cost, including direct labor, materials, freight, and indirect overhead costs. Depreciation is calculated on a straight-line basis over the estimated useful lives of the related assets, in accordance with rates consistent with industry standards. When a portion of the Association's regulated property, plant, and equipment is retired in the ordinary course of business, the gross book value is charged to accumulated depreciation and no gain or loss is recognized. Upon retirement, sale, or other disposition of non-regulated property, plant, and equipment, the cost and related accumulated depreciation are removed from the accounts and the resulting gains or losses are included in operations.

Income Taxes

The Association has been granted an exemption from Federal income taxes, except for "unrelated" business income, under Section 501(c)(12) of the Internal Revenue Code. The Association is also exempt from state income taxes. However, in any year for which greater than 15% of gross revenue is derived from nonmember services, the Association becomes a taxable cooperative. The Association was exempt from income taxes in 2011 and 2010.

Federal and state taxes payable by taxable cooperatives are computed differently from taxes payable by other corporations, primarily because cooperatives are allowed to deduct margins allocated or paid to patrons within 8 1/2 months after the end of each taxable year.

The Association follows the accounting standard for uncertain tax positions. This accounting standard provides detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions. It requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be substantiated under examination. The Association recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision when applicable. There are no amounts accrued in the financial statements related to uncertain tax positions.

The Association files informational and income tax returns in the United States and various state and local jurisdictions. The Association's Federal income tax and informational returns for the years ended December 31, 2010, 2009 and 2008 are subject to examination by the Internal Revenue Service, generally for 3 years after the returns were filed. State and local jurisdictions have statutes of limitation that generally range from 3 to 5 years.

Memberships

An initial membership fee of $20 is charged to all new member subscribers. This $20 is assigned to partly paid memberships. Subsequent margins of the Association, when redeemed, are also assigned to partly paid memberships. When a member's equity in partly paid memberships reaches $500, the equity is transferred to fully paid memberships. All further redemptions of net margins are paid in cash.

Patronage Capital

Patronage capital is derived from margins retained from operations, excluding income and gains from nonoperating activities, and refunds of Federal communications excise taxes, both of which are allocated as credits to the accounts of individual patrons in proportion to the patrons' annual charges for service and are subject to retirement at the discretion of the Board of Directors.

Note 1 - Organization and Significant Accounting Policies, continued

Other Equity
Other equity consists of unallocated margins, income and gains from nonoperating activities, reclaimed capital credits and other adjustments as determined by the Board of Directors.

Network Access Revenues
Network access revenue for intralata and interlata toll service is received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Association, charge the long distance carrier for access and interconnection to local facilities. The Association has elected to file access tariffs through the Oregon Exchange Carriers Association (OECA) and the National Exchange Carriers Association (NECA) for these charges. These access tariffs are subject to approval by the PUC for intrastate charges and the FCC for interstate charges.

When network access revenues have been received pursuant to the settlement and access agreements above, they are divided into traffic sensitive, nontraffic sensitive, and billing and collecting portions. The revenues are then either placed into a common pooling arrangement with other exchange carriers for redistribution or kept by the Association. The redistributions are made according to formulas established by the governing boards of the pools and are generally based upon expenses incurred and investment maintained.

The Association participates in pooling arrangements with NECA and OECA.

Settlement, access, and pool distribution revenues are recorded when the amounts become determinable. Related expenses are recorded when incurred. Subsequent true-ups and retroactive adjustments, which are generally allowed for a period of 24 months (NECA pool only) after the close of the related calendar year, are recorded in the year in which such adjustments become determinable.

In addition to recoveries from NECA and OECA, the Association also receives revenues from the Universal Service High Cost Loop Fund administered by the Universal Service Administrative Company (USAC). The amount of support received from USAC is based on the number of customers served and the cost of providing service in that area being in excess of the national average cost per loop, as determined by the FCC, and are included in network access revenues in the accompanying financial statements.

For the years ended December 31, 2011 and 2010, pooled revenues from NECA represent approximately 44% and 42%, respectively, of the Association's operating revenue. Revenues received from USAC for the High Cost Loop Fund represent approximately 4% and 3% of the Association's operating revenues during 2011 and 2010, respectively.

National Broadband Plan and FCC Order
In 2010 the FCC issued the National Broadband Plan which outlined a long-term plan to increase broadband penetrations and services throughout the United States of America. The plan further outlined a proposed long-term phase-out of access charges (referred to as Intercarrier Compensation) and moving to support mechanisms based on broadband services rather than the current Universal Service High Cost Loop Fund administered by USAC.

In response to the plan, the FCC on October 27, 2011, approved Report and Order 11-161 (the Order), that begins the process of reforming the universal service and intercarrier compensation (ICC) systems and adopts support for broadband-capable networks as an express universal service principle. The Order further creates the Connect America Fund which will ultimately replace all existing high-cost support mechanisms as well as help facilitate ICC reforms. The Order, among other things, caps the federal universal service fund at current levels and reforms the current system by putting various limits on capital and operating spending, requiring minimum levels for local rates and capping the per-line support amount at $250 per month.

Note 1 - Organization and Significant Accounting Policies, continued

National Broadband Plan and Recent FCC Order, continued
The Order also reforms the ICC system by adopting a plan to transition from access charges to a bill and keep framework. The transition period for rate-of-return carriers such as the Association is 9 years. Recovery will be calculated initially based on the fiscal year 2011 interstate switched access revenue requirement and will decline annually by 5% during the transition period. The Order includes the adoption of a monthly Access Recovery Charge as a transitional recovery mechanism to mitigate the impact of reduced intercarrier revenues.

The Order was effective December 29, 2011. However, the reform process will take place in phases and is expected to take several years to complete. Furthermore the Order includes a Further Notice of Proposed Rulemaking and seeks comments on various items including potentially reducing the interstate rate of return from its current level of 11.25%. As the ultimate outcome of these proceedings is uncertain the full impacts of the Order on the Association cannot be determined or reasonably estimated at this time.

Subsequent Events
The Association has evaluated subsequent events through February 9, 2012, which is the date the financial statements were available to be issued.

Note 2 - Marketable Securities

Marketable securities consist of corporate bonds, government backed securities, mutual funds and unit trusts, and are categorized as available for sale. These securities are stated at fair value in the financial statements with accumulated unrealized gains and losses reported as a separate component of members' equity.

Fair value of marketable securities:

	2011	2010
Cost	$ 609,917	$ 592,882
Unrealized holding gain	19,179	7,856
Fair value	$ 629,096	$ 600,738

The net adjustment to unrealized holding gains increased other comprehensive income by $11,323 in 2011 (increased by $20,291 in 2010).

Realized gains and losses are determined on the basis of specific identification. Proceeds from sales and maturities of marketable securities were $31,715 in 2011 ($33,018 in 2010). There were no gross realized gains or losses in 2011 or 2010.

Investments are stated at fair value based on a framework that provides a fair value hierarchy prioritizing the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the organization has the ability to access.

ST. PAUL COOPERATIVE TELEPHONE ASSOCIATION

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

Note 2 - Marketable Securities, continued

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar asset or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement valuation techniques used to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2011 and 2010.

Corporate bonds, asset and mortgage backed securities, and mutual funds: Valued at the closing price reported on the active market on which the individual investments are traded.

Unit trusts: A grouping of bonds earning an average interest rate valued at the closing price reported on the active market on which the individual securities are traded.

The following tables set forth, by level within the hierarchy, the Association's marketable securities at fair value:

	Assets at Fair Value as of December 31, 2011			
	Level 1	Level 2	Level 3	Total
Corporate Bonds	$ 115,414	$ -	$ -	$ 115,414
Asset and Mortgage Backed Securities	260,479	-	-	260,479
Unit Trusts	-	-	222,400	222,400
Mutual Funds - Large Cap	30,803	-	-	30,803
	$ 406,696	$ -	$ 222,400	$ 629,096

	Assets at Fair Value as of December 31, 2010			
	Level 1	Level 2	Level 3	Total
Corporate Bonds	$ 127,448	$ -	$ -	$ 127,448
Asset and Mortgage Backed Securities	279,900	-	-	279,900
Unit Trusts	-	-	160,077	160,077
Mutual Funds - Large Cap	33,313	-	-	33,313
	$ 440,661	$ -	$ 160,077	$ 600,738

ST. PAUL COOPERATIVE TELEPHONE ASSOCIATION
Notes to Financial Statements
Years Ended December 31, 2011 and 2010

Note 2 - Marketable Securities, continued

The following is a summary of changes in the fair value of the Association's level 3 marketable securities at December 31:

	2011	2010
Beginning balance	$ 160,077	$ 90,779
Purchases	48,750	65,962
Unrealized gain	13,573	3,336
Ending balance	$ 222,400	$ 160,077

The following is a summary of scheduled maturities of marketable debt securities as of December 31, 2011:

	Amortized Cost	Fair Value
Amounts maturing in:		
One year or less	$ -	$ -
After one year through five years	-	-
After five years through ten years	-	-
After ten years	117,000	115,414
	$ 117,000	$ 115,414

Note 3 - Other Investments

Other investments, at cost, consist of the following:

	2011	2010
Western Independent Networks, Inc. (WIN)		
444 shares common stock	$ 12,724	$ 12,724
National Rural Telephone Cooperative Patronage	8,923	5,498
	$ 21,647	$ 18,222

Note 4 - Property, Plant, and Equipment

Listed below are the major classes of property, plant, and equipment, and their related composite depreciation rates:

	Depreciation rates	2011	2010
Land and support	3.0 - 15.0%	$ 368,567	$ 368,308
Central office equipment	6.7 - 20.0%	955,063	925,163
Cable and wire facilities	3.0 - 6.1%	1,408,233	1,376,135
		$ 2,731,863	$ 2,669,606

Note 5 - Pension Plan

The Association participates in a qualified multi-employer, defined benefit pension plan (the Plan) sponsored by the National Telephone Cooperative Association (NTCA), which covers all full-time eligible employees. Contributions to the Plan are based on each employee's salary and age, and are determined by NTCA. Contributions charged to expense were $35,035 in 2011 ($33,795 in 2010).